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SUBJECT: RULING PARTY MAJORITY RAZOR THIN FOLLOWING MP RESIGNATION OVER SCANDAL

REF: A. ATHENS 23

¶B. ATHENS 64

¶1. (SBU) On January 31, the ruling New Democracy party's already-thin majority was shaved further (152 to 151 seats of 300) when ND MP Kostas Koukodimos announced he was leaving the party following allegations of corruption in connection with the parties to the overheated Zachopoulos scandal (refs a, b). In a letter to the speaker of the Parliament, Koukodimos said he would continue to support ND's line as an independent, but his resignation removes any margin of error from PM Karamanlis's calculations in maintaining party discipline in Parliament, including on tough economic and education reform issues, as well as on the very sensitive Macedonia name issue.

¶2. (SBU) Koukodimos came under the spotlight when one of Greece's best-known sensationalist reporters alleged that Koukodimos had interceded with him to quash newspaper stories damaging the reputation of Spyros Kladas, chief of the GOG's Special Investigation Squad (SOE) focusing on fraud and financial crimes, including those connected with the Zachopoulos affair. Kladas had worked at the Culture ministry when Zachopoulos was SecGen there. Media reports claim that Kladas had promised to find a permanent government job for Zachopoulos's mistress (which he denies) and that he was privy to Zachopoulos's actions at the ministry.

¶3. (SBU) The Zachopoulos affair has been front-page news since it first broke just before Christmas, but thus far the allegations and investigations by magistrates have focused on secondary cover-up, blackmail, and pay-off allegations. The GOG is only now beginning in earnest its investigation of Zachopoulos's tenure at the Culture Ministry and whether he used his position to, amongst other things, allow illicit building on, or reconstruction or, historical properties in exchange for bribes -- allegations which many Greeks assume to be true but for which no evidence has yet publicly surfaced.

¶4. (SBU) Koukodimos apparently submitted his resignation from the party in order to save ND further embarrassment and said that he intends to continue to vote with the government. Nevertheless, with Koukodimos's departure, the ND majority is precarious. There are rumors that another ND MP may soon be revealed in a situation similar to Koukodimos's, which could have serious repercussions on the government's position. Slipping to 150 of 300 seats would bring the fall of the government and a possible new round of elections.

¶5. (SBU) COMMENT: The Zachopoulos affair is Byzantine politics at its most complicated, and many Greeks are wary of missing even a day's reporting out of fear of losing track of the many strands. We continue to watch the affair closely, but have yet to see hard evidence of wrong-doing at the heart

of the matter. But the Karamanlis government nevertheless is starting to feel the bad effects in terms of an even more fragile Parliamentary majority and in popularity polls -- and all at a time when the GOG faces tough domestic and international issues. END COMMENT.

SPECKHARD